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MULTILATERAL INVESTMENT FUND

**PERU**

**DEVELOPMENT OF BUSINESS NETWORKS IN THE  
GARMENT-MAKING (GAMARRA) AND  
TOURISM (CUZCO) CLUSTERS OF PERU**

**(TC-03-02-01-0)**

**DONORS MEMORANDUM**

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Annex I	Logical framework
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## **INFORMATION AVAILABLE IN THE PROJECT FILES**

### **Preparation**

Institutional data

Analysis of sectors and SMEs in Gamarra and Cuzco

Analysis of institutions in Gamarra and Cuzco

Evaluation methodology for the “networks and supply chains” cluster

### **Execution:**

Operating Regulations

Terms of reference for the director and coordinators

Project timetable

## **ABBREVIATIONS**

CE	Consejo estratégico [strategy council]
CESI	Committee on Environment and Social Impact
MIF	Multilateral Investment Fund
ONPE	Oficina Nacional de Procesos Electorales [National Electoral Office]
OU	Operating unit
PEU	Project executing unit
PROMPYME	Comisión de Promoción de la Pequeña y Microempresa [Small Business and Microenterprise Development Commission]

## DEVELOPMENT OF BUSINESS NETWORKS IN THE GARMENT-MAKING (GAMARRA) AND TOURISM (CUZCO) CLUSTERS OF PERU

(TC-03-02-01-0)

### EXECUTIVE SUMMARY

<b>Executing agency:</b>	Comisión de Promoción de la Pequeña y Micro Empresa [Small Business and Microenterprise Development Commission] (PROMPYME)								
<b>Beneficiaries:</b>	250 garment-making enterprises in the Gamarra cluster and 250 tourism service enterprises in the Cuzco cluster.								
<b>Financing:</b>	<table> <tr> <td>Modality:</td><td>Grant financing</td></tr> <tr> <td>MIF (Facility III-A):</td><td>US\$ 970,000</td></tr> <tr> <td>Local counterpart:</td><td><u>US\$ 630,000</u></td></tr> <tr> <td>Total:</td><td>US\$1,600,000</td></tr> </table>	Modality:	Grant financing	MIF (Facility III-A):	US\$ 970,000	Local counterpart:	<u>US\$ 630,000</u>	Total:	US\$1,600,000
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MIF (Facility III-A):	US\$ 970,000								
Local counterpart:	<u>US\$ 630,000</u>								
Total:	US\$1,600,000								
<b>Objectives:</b>	The general objective of the project is to help the cluster of small tourism enterprises in Cuzco, and those of the garment-making sector in Gamarra, to become more competitive. The specific objective is to create cooperative business networks capable of strengthening the dynamics for collective efficiency within each cluster, and to optimize market access for member enterprises.								
<b>Description:</b>	The project will include four components: (i) development of cooperative business networks; (ii) assistance with access to production and organizational technologies; (iii) facilitating market access; and (iv) monitoring and dissemination of project outcomes.								
<b>Execution timetable:</b>	The execution period for the project will be 36 months, and disbursements will be spread over 42 months.								
<b>Environmental and social review:</b>	CESI approved this operation at its 10 October 2003 meeting. Its comments have been incorporated into paragraph 3.8.								
<b>Special contractual clauses:</b>	As conditions precedent to the first disbursement, the following must be submitted to the Bank's satisfaction: (i) the final version of the Operating Regulations; (ii) the act establishing the Project Executing Unit (paragraph 4.2); and (iii) the annual work plan for the first year of the program with disbursement milestones (paragraph 4.4). The conditions precedent to the first disbursement, as stated in the general								

and special conditions, must be fulfilled within 60 days after signature of the agreement.

**Exceptions to  
Bank policy:**

None.

**Coordination  
with other  
development  
institutions:**

No similar programs of other donors were found during project preparation in the selected areas and sectors. In addition, the project calls for PROMPYME to coordinate project activities with any other, related initiatives in the country through active participation on the Interagency Committee on Cluster Development (paragraph 4.2).

## **I. BACKGROUND**

### **A. Production clusters in Peru**

- 1.1 In Peru, small businesses<sup>1</sup> account for some 99.6%<sup>2</sup> of all businesses, generate approximately 42.1% of domestic output, and employ some 75.9% of the country's economically active population.<sup>3</sup> Despite their importance in quantitative terms, these businesses have a limited ability to create wealth. The size distribution of businesses in Peru largely explains the lack of coordination within its productive sector: the weakness of its middle stratum (3.7% of businesses), which links the country's few large companies (0.34%) with its many microenterprises (96%). Given these figures, there is a clear need to make the most of the development potential of the small enterprises as a means of filling the vacuum at the mid-level of Peru's business community.
- 1.2 The Small Business and Microenterprise Development Commission (PROMPYME) has identified a number of promising small business clusters in Peru and has been working to promote greater competitiveness within their ranks.
- 1.3 In selecting the clusters to be included in the project, PROMPYME has chosen two economically important sectors that represent a greater number of small manufacturing and service businesses with significant potential for becoming more competitive: (i) the garment-making industry in the Gamarra district (Lima); and (ii) the international tourism industry catering to the Cuzco-Machu Picchu circuit.

#### **1. Garment-making in Gamarra**

- 1.4 Since 1995 exports by Peru's textile and garment industry have grown steadily, rising by an average of 16% per year. Owing to this sector's recent inclusion in the tariff-elimination agreement with the United States, new opportunities are opening up for Peru's garment-making industry, which is a top strategic priority given the large number of people it employs either directly or indirectly—estimated at 700,000.
- 1.5 The Gamarra cluster consists of nearly 12,000 microentrepreneurs in 162 groupings (in commercial malls, trade centers and fairs), which manufacture and sell clothing and apparel. Of the cluster's total annual sales (approximately US\$800 million), it is estimated that only 3% goes into the export market. One successful experience with partnerships occurred when Gamarra assembled seven consortia to bid on a

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<sup>1</sup> The definition of small business in Peru also includes microenterprises.

<sup>2</sup> SUNAT 2001 (classifies as small businesses all economic units with annual sales under US\$750,000).

<sup>3</sup> Instituto Nacional de Estadística e Informática [National Institute of Statistics and Informatics] (INEI), 1997.

public tender called by the National Electoral Office (ONPE) in 2002 for the production of T-shirts (four of these consortiums received contracts). The Gamarra cluster can increase its share of exports provided its members can meet the required standards and quality requirements, and develop the cooperative or subcontracting arrangements needed to produce the necessary volume of goods.

## **2. Tourism in Cuzco**

- 1.6 Peru has numerous tourist attractions which drew around one million foreign visitors to the country in 2001, versus 541,000 in 1995 and 317,000 in 1990. This influx of tourists is expected to continue rising over the next few years thanks, among other things, to modernization of the country's main airports, including that of Cuzco.
- 1.7 The Cuzco cluster is made up primarily of small enterprises that provide tourist and tourism-related services (over 4,200 units including restaurants, hotels, transport providers, travel agencies and businesses selling various articles), and there are a few, sporadic cases of cooperation among companies in this sector (e.g. hotels working in coordination with travel agencies and restaurants). The structuring of the sector in Cuzco suggests that it may be possible to substantially raise the level of competitiveness of these enterprises by promoting networks to offer more complex tourist products that meet international standards.

### **B. Problems to be addressed**

- 1.8 Various factors currently limit the ability of member small enterprises to improve productivity and competitiveness within the selected clusters:
  - a. **Low level of horizontal cooperation** among enterprises and **lack of vertical integration** along the value chain within each cluster. This results in: (i) high transaction costs (purchases and sales); (ii) failure to act collectively and so benefit from economies of scale; and (iii) absence of a shared view of future local development.
  - b. **Weak market orientation and failure to adopt the cooperative strategies needed to enter potential markets.** This reflects: (i) limited business intelligence capacity; (ii) weak marketing management; and (iii) an absence of systems for differentiating supply to satisfy demand segments.
  - c. **Lack of coordination between supply and demand for business services.**
  - d. **Disjointed institutional support**, as seen in: (i) a lack of agents working to promote and facilitate business cooperation; (ii) a lack of opportunities for public/private dialogue; and (iii) inability of local business associations to focus and represent the requirements of the member enterprises.

### **C. Rationale and project strategy**

- 1.9 The project strategy is based on the observation that promoting cooperation among small enterprises by identifying common problems and seeking collective solutions has, in a variety of contexts, shown itself to be an effective means of improving competitiveness and business development in general. By forming cooperative networks, the enterprises can achieve the critical mass needed to penetrate new markets, take advantage of economies of scale (improving their position vis-à-vis suppliers and customers), and act as a catalyst for learning processes and efforts to increase productivity. One of the guiding principles is that businesses must drive the process. Accordingly, a strategic objective is the empowerment of entrepreneurs, meaning that decisions within the project must be made by the members of each network. Finally, the project calls for PROMPYME to transfer its role as promoter and facilitator to private business organizations by the end of the project.
- 1.10 From this perspective, the rationale for this project is fourfold: (i) it provides an opportunity to make a major group of enterprises more competitive through adoption of cooperative strategies; (ii) it will have a demonstration effect for the enterprises of the Cuzco and Gamarra clusters; (iii) it is an innovative project for Peru, where small businesses lack the tools to promote adoption of business partnership strategies; and (iv) the networks formed under the project will have a ripple effect on the respective value chains, thereby boosting exports. This eighth program in the MIF networks and supply chains cluster incorporates lessons learned and best practices assembled by a consulting firm hired by SDS/MSM and MIF to conduct and evaluate supply chain projects.

## **II. PROJECT OBJECTIVES, COMPONENTS AND ACTIVITIES**

### **A. Objectives**

- 2.1 The general objective of the project is to help the cluster of small tourism enterprises in Cuzco, and those of the garment-making sector in Gamarra, to become more competitive.
- 2.2 The specific objective is to create cooperative business networks capable of strengthening the dynamics for collective efficiency within each cluster, and to optimize market access for member enterprises.

### **B. Components and activities**

#### **1. Component I. Development of cooperative business networks**

- 2.3 This component seeks to strengthen productive and business cooperation among small enterprises, to enhance their competitive position. It will do so by facilitating

efforts to create business networks for specific purposes with the capacity for collective action.

- 2.4 The following activities are included in this component: (i) establishing project operating units (OUs) for each cluster; (ii) providing training in network facilitation and competitive models for business cooperation; (iii) encouraging participatory design of a shared vision of competitive development in each cluster; (iv) promoting and raising awareness among the entrepreneurs of the advantages and opportunities of networking; (v) conducting initial studies of the enterprises participating in the project; (vi) compiling information in each cluster on the supply of consultants and nonfinancial business service providers that can take part in project execution; (vii) facilitating the creation of business networks and preparation of business plans by identifying shared objectives and strategies; and (viii) setting up strategy councils and promoting their involvement in project operations as a step toward shifting PROPYME's promotional role gradually to private entities.
- 2.5 Among other selection criteria, the enterprises participating in the networks must: (i) have a completed baseline study; (ii) state their willingness to pay for individual and collective services received; (iii) at least 80% of the enterprises in each cluster must show net sales of less than US\$750,000; (iv) none of the enterprises that exceed the foregoing annual sales limit will be eligible for cofinancing from the project; (v) comply with Peru's environmental and occupational safety requirements or, failing that, include as part of their activities specific plans to comply with such requirements; and (vi) ensure ethnic and gender equality.
- 2.6 The principal outcomes of this component will be as follows: 20 business networks that have adopted business plans with at least 160 participating enterprises in all; 10 PROPYME and PEU executives and professional staff and 12 professionals in each cluster will have received training in network management and facilitation and competitive models of business cooperation; a minimum of 200 enterprises in each cluster will have completed baseline studies; and private entities will carry on the project once execution is complete.

## **2. Component II: Assistance with access to production and organizational technologies**

- 2.7 This component is intended to improve the productivity and competitive performance of enterprises taking part in the networks during project execution by providing them with better access to business services. By contrast with conventional technical assistance and training programs for small enterprises, in this project nonfinancial business services are designed to help strengthen networks and will directly assist enterprises in meeting the relevant standards demanded by their customers, while emphasizing the empowerment of entrepreneurs through the

identification of needs and selection of suppliers. The network managers hired under the project will report directly to the entrepreneurs making up the network.

- 2.8 The activities to be carried out under this component will be: (i) support for the selection and hiring of network managers; (ii) review of the business plans approved by the entrepreneurs of each network and the PEU, taking environmental and labor considerations and related actions into account; (iii) preparation of network action plans; (iv) provision of legal advice to define the relationships among businesses within the networks created under the project; (v) facilitating the hiring of consultants by the networks to optimize production and organizational procedures in order to adjust the supply of products to the business opportunities identified; and (vi) design and periodic distribution of an evaluation sheet for determining level of satisfaction among participating enterprises.
- 2.9 The principal outcomes of this component will be as follows: 20 networks are operating under managers hired for such purpose; a 100% increase by the end of the first year of network operation (compared to baseline figures), and a 10% average annual increase thereafter in the amount invested in technical assistance for optimization of production and organizational processes; compliance with each network's action plan for the hiring of business services; and at least 70% of participating enterprises indicate satisfaction with the business services recruited.

### **3. Component III. Facilitating market access**

- 2.10 Under this component the project seeks to improve the capacity of participating enterprises to sell their products and services in the local and foreign markets appropriate to each cluster, at the same time helping them to identify new or more sophisticated customers and markets. A central goal of the project is to ensure that the networks develop clear and pertinent objectives in their search for the relevant market opportunities. The business plan adopted by each cooperative network must be consistent with this goal, and it is the duty of the PEU to exercise vigilance and point out to the entrepreneurs any such lack of consistency in their business plan.
- 2.11 This component will include activities intended to: (i) identify business opportunities for the networks participating in the project and make the supply adjustments necessary to take full advantage in terms of quality and standards compliance (support for necessary changes will be provided under component II); (ii) organize semiannual meetings to promote supply cooperation and provide coordination among the business networks participating in the project and the companies of the garment-making and tourism sectors, respectively; and (iii) design and implement specific business strategies for each network.
- 2.12 The principal outcomes expected from this component will be as follows: each network has agreed on a business strategy with the PEU under annual work plans, at least 80% of which must be carried out; at least ten garment makers and tourist

operators develop new business through the network from specific contacts made at the semiannual meetings; and by project end the overall sales of participating enterprises increase by at least 20% (compared to the baseline figure).

#### **4. Component IV. Monitoring and dissemination of project outcomes**

- 2.13 Under this component, information on progress achieved by the project will be compiled and analyzed. In addition, the business development model and its outcomes will be disseminated in order to codify the methodology for creating business networks and promote its adoption by other clusters in Peru.
- 2.14 Activities under this component will be as follows: (i) design, implement and maintain a project monitoring system; (ii) conduct an annual participatory evaluation of progress in achieving the objectives of each network's action plan; (iii) articulate the cooperative experiences promoted by the project; (iv) disseminate the project outcomes through audiovisual materials, print publications and other means; (v) organize internships for private-sector personnel from other clusters in Peru; and (vi) design, organize and hold a contest for the best cooperative business plans. This component will also expense the cost of project monitoring to be administered by the MIF.
- 2.15 The principal outcome is expected to be: one video and one print publication on at least four case studies of efforts to create and strengthen business networks; two project dissemination workshops; and culmination of the cooperative business plan contest with at least 60 enterprises taking part, in addition to those participating in the project.

### **III. COST AND FINANCING OF THE PROJECT**

- 3.1 The total cost of the project will be US\$1,561,720, including US\$946,400 in MIF nonreimbursable financing and US\$615,320 contributed by PROMPYME. The MIF resources will be used primarily for technical assistance to help enterprises improve their technology. Counterpart funding will be mainly in the form of a cash contribution, and less than 25% in kind, primarily for overhead expenses and project promotion. The beneficiary enterprises will cofinance all assistance and business services.
- 3.2 **Project sustainability.** An initial, direct measure of project sustainability will come in the form of the planned increase in cofinancing of project activities by participating enterprises. As well, the sustainability of the project will be based on three factors: (i) the demonstration effect of the outcomes achieved by participating business networks; (ii) creation of the strategy councils (CEs) in Cuzco and Gamarra to familiarize representatives of participating enterprises and private-sector entities with the projects, encouraging them to act as facilitators and promote

their respective networks, and—upon project completion—to propose methods for continuing this role; and, finally, (iii) disseminating the project outcomes to private-sector entities with the capacity to replicate the work done under the project in other clusters within Peru. Evaluations will assess progress in terms of project sustainability.

Item	MIF	Counterpart	Total	%
<i>A. Components</i>	905,400	364,960	1,270,360	
I. Development of cooperative business networks and cooperation with institutions	188,200	226,960	415,160	26%
II. Assistance with access to production and organizational technologies	577,200	8,000	585,200	37%
III. Facilitating market access	114,000	50,000	164,000	10%
IV. Evaluation, monitoring and dissemination of project outcomes	26,000	80,000	106,000	7%
<i>B. Project Executing Unit</i>	-	178,800	178,800	
<i>C. Administration and oversight</i>	-	71,560	71,560	
<i>D. Evaluation and external audits</i>	21,000	-	21,000	
<i>Contingencies</i>	13,600	14,680	28,280	
<b>SUBTOTAL</b>	<b>940,000</b>	<b>630,000</b>	<b>1,570,000</b>	<b>100%</b>
%	60%	40%	100%	
MIF cluster follow-up	30,000	-	30,000	
<b>TOTAL</b>	<b>970,000</b>	<b>630,000</b>	<b>1,600,000</b>	

## IV. PROJECT EXECUTION

- 4.1 **Executing agency.** The executing agency for the project will be the Comisión de Promoción de la Pequeña y Micro Empresa [Small Business and Microenterprise Development Commission] (PROMPYME), which promotes, coordinates and builds consensus for sector activities to expand the markets of microenterprises and small businesses. PROMPYME has an operational office which acts as a department of the Ministry of Labor and Social Welfare, a budget of US\$2.5 million for the current year, and 45 professional staff with qualifications in small business development fields.
- 4.2 **Execution mechanism.** To execute this project, PROMPYME will set up a project executing unit (PEU) responsible for reporting to the Bank and for the administrative and financial aspects of the project. In addition, one strategy council (CE) and one operating unit (OU) will be created within each cluster. PROPYME will coordinate with other small business support initiatives through participation on the Interagency Committee on Cluster Development along with PROMPEX, PRODUCE, and COFIDE, where it will report on project progress. The PEU will consist of a project director and one assistant. The PEU will also receive direct institutional support from PROMPYME, which will assign the manager of the Clusters Division to devote 20% of his time to the project. The CEs will be collegial bodies made up of representatives of enterprises and both public and

private institutions belonging to each cluster,<sup>4</sup> with the exception of nonfinancial service providers that may be hired in the course of the project. Each CE will be responsible for overseeing proper implementation and facilitating the project within its cluster. The operating units (OUs) will be the teams responsible for project execution in each cluster, and will consist of one coordinator and one administrative assistant. The coordinator will be a specialist in network coordination and will supervise and provide direction to the network managers, as needed. The coordinator will also report on progress under the annual work plans.

- 4.3 **Stage of development of the program.** PROMPYME has been making progress in its preparation of the project, maintaining ongoing dialogue with the various leading entrepreneurs in both clusters, as well as with the entities that should be represented on each of the strategy councils. In the case of Cuzco, a study of international tourism trends has been done, to ensure proper targeting of the competitive strategies of business networks.
- 4.4 **Execution and disbursement periods.** The execution period for the project will be 36 months, and disbursements will be spread over 42 months. A revolving fund will be established equivalent to up to 10% of the MIF's contribution, and resources in this fund will be managed through a separate account. A further condition precedent to disbursements will be meeting the targets (milestones) set in the disbursement timetable to be established in coordination with the project team as part of the annual work plans. Summary reports on targets met will be submitted to the Bank along with disbursement requests. The Bank may cancel the project in the event of failure to meet targets within 6 months after the deadlines set in the timetable. The executing agency must deliver the annual work plans for years two and three at the time it submits the second midyear report for the prior project year.

## V. MONITORING AND EVALUATION

- 5.1 **Progress reports.** The PEU will prepare and present progress reports to the Bank's Country Office in Peru within 60 days following the close of each six-month period during the project, and a final report within 60 days after the last disbursement. These reports will employ a format agreed to in advance with the Bank's Country Office, and will cover financial performance, activities and outcomes.
- 5.2 **Management reports.** The PEU will prepare quarterly management reports to be delivered at meetings of the project CEs, to ensure close supervision of progress and budget execution. For the relevant period, such management reports must cover progress in terms of the outcomes specified in the work plan; budget performance;

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<sup>4</sup> Each CE will have approximately 12 representatives: 4 from institutions representing the business sector, 4 from public sector agencies; 2 from civil society; and 2 from the networks created under the project.

administrative matters; follow-up on implementation of decisions; and major achievements and problems and action taken as a result.

- 5.3 **Evaluation.** The project will include two evaluations by a consultant specializing in production networks, who has been selected and hired directly by the Bank; the Country Office will coordinate this task with the director of the MIF cluster. The evaluation will employ the standard methodology for this cluster using baseline figures compiled in the studies of each enterprise under Component I. In line with such methodology, the Logical Framework presented in Annex I provides the detailed indicators for project execution, monitoring and evaluation.
- 5.4 The consultant for the first evaluation will be hired upon approval of the first disbursement, so that he or she may take part in implementation of the monitoring system and help define baseline values. The first evaluation will be conducted once more than 50% of the contribution has been disbursed, or 18 months have elapsed since the first disbursement. This evaluation will cover at least the following: (i) changes in the Logical Framework indicators; (ii) the progress made by each group supported by the program; (iii) the institutional capacity of the executing agency and other institutions involved in the program; (iv) compliance with the *pari passu* requirement; (v) compliance with applicable Peruvian environmental and occupational safety requirements; and (vi) steps to support project sustainability. This report must indicate any corrective action necessary to ensure proper execution of the project. The second evaluation will be conducted once 95% of the MIF resources have been disbursed, and will assess: (i) the degree to which the program's purposes and specific objectives have been fulfilled; (ii) user satisfaction through a survey of participating enterprises; and (iii) the degree of sustainability of project activities, including enterprise compliance with applicable environmental and occupational safety requirements. This evaluation will include comparative analysis of the outcomes achieved by beneficiary enterprises, relative to those of a control group of enterprises receiving no project support.

## VI. BENEFITS AND RISKS

### A. Benefits

- 6.1 **Beneficiaries.** Participating in network formation will be a minimum of 160 small enterprises in the Gamarra cluster of garment-making enterprises and the tourist-service enterprises of the Cuzco cluster. In addition, 340 enterprises will benefit from training and awareness activities to promote network formation, and a total of 400 enterprises will be evaluated in the project's initial diagnostic assessment of management practices and competitive performance.
- 6.2 Indirect beneficiaries will include other businesses that profit from the demonstration effect produced by the networks created under the project. Many

enterprises in both clusters also stand to benefit, if the project succeeds in enhancing the supply of business services in the targeted areas.

## **B. Risks**

6.3 The following risks have been identified:

- a. **The capacity and level of interest among private-sector institutions in facilitating and promoting business networks.** The project calls for private-sector involvement from the outset in strategy-making and oversight bodies. The project also includes activities to raise these institutions' awareness of the importance of taking an active role in building a share vision of development and supporting business networks.
- b. **The readiness of small enterprises to participate in partnerships** (their willingness to engage in confidence-building and cofinance the network manager and business services). Project activities seek to make small enterprises more aware of the benefits of collective action, and to empower entrepreneurs in contracting for the services of the network manager.
- c. **Inadequate supply of business services.** The project will identify qualified entities that are able to supply the necessary services by surveying qualified service providers and subsequently registering them. The members of the business networks (demand) will then be placed in contact with these service providers (supply).

## **VII. ENVIRONMENTAL AND SOCIAL CONSIDERATIONS**

- 7.1 The project activities are deemed to have no adverse environmental impact. To the contrary, the project will provide training to management and labor alike in occupational safety and health and environmental protection, plus specific consulting services where warranted. In addition, it will promote the use of clean production methods and environmental management as a means of helping enterprises to reduce production costs and increase profitability.

**DEVELOPMENT OF BUSINESS NETWORKS IN THE GARMENT-MAKING (GAMARRA)  
AND TOURISM (CUZCO) CLUSTERS OF PERU (TC-03-02-01-0-PE)**

**LOGICAL FRAMEWORK**

<b>Objectives</b>	<b>Indicators</b>	<b>Means of Verification</b>	<b>Assumptions</b>
<b>Goal</b> Help the tourism cluster in Cuzco and garment-making cluster in Gamarra to become more competitive.	Average performance indicators of businesses have improved (productivity: <sup>1</sup> 10%; sales: 20%)		No major changes in the relevant macroeconomic scenario.
<b>Purpose</b> Create cooperative business networks capable of enhancing collective efficiency within each cluster, and improve market access for participating enterprises.	By project end: 30 months into the project, at least 5 successful collective activities <sup>2</sup> with a measurable impact have been carried out in each cluster. Sustainability: at least 50% of networks are operating by month 30, and remain in operation one year after project end.	Annual performance evaluation vs. baseline (SGI reports). Project evaluation reports (midterm and final). Monitoring of annual work plans. Minutes of strategy council (CE) meetings. Ex post monitoring of the project one year after completion.	The number of institutions offering business services meets minimum requirements. Demand for the products and services in the relevant sectors for the two clusters does not fall off substantially. Ex post monitoring capacity exists.
<b>Components</b> <b>1. Development of cooperative business networks.</b>	12 months into the project, 20 cooperative business networks have approved business plans, with at least 160 participating enterprises in all.	Acts establishing the networks. Minutes of each cluster's strategy council.	Private businesses and institutions remain interested in participating in the project.

<sup>1</sup> For Gamarra, productivity will be measured as the value added per employee and, for Cuzco, as the occupancy rate. Actual values will be measured.

<sup>2</sup> These successful activities may be in the following fields: access to and retention of markets; access to business, production and management services; compliance with standards; coordination with other links in the value chain; development of initiatives in alliance with the public sector and/or civil society; access to financing.

Objectives	Indicators	Means of Verification	Assumptions
	<p>In addition:</p> <p>By month 3:</p> <p>1.1 The Operating Unit for the project is up and running.</p> <p>1.2 10 PROMPYME and PEU executives and professional staff and at least 12 professionals in each cluster have received training in network facilitation and competitive models of business cooperation.</p> <p>1.3 Shared vision of competitive development defined in each cluster.</p> <p>By month 6:</p> <p>1.4 250 enterprises in each cluster have been made aware of the benefits of business-to-business cooperation.</p> <p>1.5 Baseline study completed for 200 enterprises in each cluster.</p> <p>1.6 Survey of business service providers completed for each of the following fields: business management, management of production processes, technology management, international standards and regulations, and formalization of networks.</p>	<p>Business plans of networks.</p> <p>Strategy council minutes and contracts for the coordinator and assistant of each cluster.</p> <p>Records of participants who successfully complete the course on network facilitation and competitive models of business cooperation.</p> <p>Report of participatory workshops on strategic planning and shared vision statement signed by strategy council members.</p> <p>Database on enterprises participating in awareness-raising activities.</p> <p>Report on baseline figures in each cluster.</p> <p>Database on business services providers by field and by cluster.</p> <p>Records of participants at preparatory meetings.</p> <p>Records of partnership initiatives undertaken by groups of enterprises.</p> <p>Registration, evaluation form, and payment in the amount of 10% of the cost of general training courses.</p> <p>Statements signed indicating commitment to the creation of networks</p> <p>Profiles for business plans.</p>	<p>Professionals are available for training in business partnerships.</p> <p>Enterprises are willing and able to cofinance production and management training.</p>

Objectives	Indicators	Means of Verification	Assumptions
	<p>By month 12:</p> <p>1.7 Enterprises that have been made aware of the benefits of business-to-business cooperation enter into at least 4 partnership initiatives in each cluster.</p> <p>By month 36:</p> <p>1.8 Private entities carry on the project.</p>	<p>Private entity or entities sign a framework agreement with business networks in each cluster.</p>	
<p><b>2. Assistance with access to production and organization technology.</b></p>	<p>2.1 An increase of at least 100% (compared to baseline figures) by the end of year 2, and a 10% annual increase over the prior year by the end of year 3, in the amount invested in technical assistance by participating businesses as a whole for optimization of production and organizational processes, in order to supply sufficient product to meet newly identified demand opportunities.</p> <p>By month 14:</p> <p>2.2 20 networks are operating under managers hired for this purpose.</p> <p>Annually, beginning in year 2:</p> <p>2.3 Each network fulfilling its work plan with respect to the contracting of technical assistance.</p> <p>2.4 70% of participating enterprises are satisfied with the business services provided.</p>	<p>Documentary evidence of payment for technical assistance.</p> <p>Contract for the formal operation of each network (pooling of funds, shared account, or other arrangement).</p> <p>Contracts for hire of management services.</p> <p>Annual work plans.</p> <p>Periodic reports showing satisfaction of entrepreneurs with the services provided.</p>	<p>Enterprises are willing and able to cofinance payment of the network managers' salary.</p> <p>Participating enterprises are willing to demand efficiency in the work of the network manager.</p> <p>Enterprises are willing and able to cofinance technical assistance.</p> <p>Enterprises are willing to insist on high quality in the services provided.</p>

Objectives	Indicators	Means of Verification	Assumptions
<b>3. Facilitating market access.</b>	<p>By project end, the overall sales of participating enterprises have increased by at least 20% (compared to the baseline figure), consistent with business strategies.</p> <p>Annually, beginning in year 2:</p> <p>Business strategies have been agreed upon with the PEU for each network and are 80% implemented.</p> <p>3.1 At least 10 garment makers and tourism operators are developing new business with networks based on contacts made during the semiannual meetings.</p> <p>3.2 In year 3, at least 3 networks in each cluster demonstrate that they meet shared quality standards.</p>	<p>Annual work plans and monitoring reports.</p>	<p>Key members of the marketing chain remain stable.</p> <p>Quality standards accrediting agencies exist.</p>
<b>4. Monitoring and dissemination of project outcomes.</b>	<p>4.1 By month 8, an information system is in operation for monitoring performance and impact indicators.</p> <p>4.2 By month 30, one video and one print publication have been produced describing at least four case studies on the creation and strengthening of cooperative business networks.</p> <p>4.3 By month 18, project information is available through a link on the PROMPYME website.</p>	<p>Project profiles.</p> <p>Regular reports on project progress monitoring and performance indicators.</p> <p>Miscellaneous evidence.</p> <p>Records of attendees at events.</p> <p>List of trainees.</p> <p>Records of the competition (receipt of submissions, evaluation, and awards).</p>	<p>The capability exists for inputting project information into the management system.</p> <p>Private sector regional entities have the local capacity needed to design, execute, and cofinance business partnership development projects.</p>

Objectives	Indicators	Means of Verification	Assumptions
	<p>4.4 By month 36, 2 events have been held to disseminate project outcomes and impacts, targeting at a select audience.</p> <p>4.5 By month 36, at least 10 cluster outsiders who are in a position to replicate the model elsewhere, have served internships in the networks of each cluster.</p> <p>4.6 By month 36, at least one initiative has been awarded a prize, one additional sponsor has been obtained for the competition, and 60 enterprises not belonging to the networks have participated.</p>		
<b>ACTIVITIES</b>  <b>Component 1:</b>  a. Recruit and hire two coordinators and two administrative assistants for the clusters.  b. Prepare and conduct three workshops on network facilitation and competitive models of business cooperation.  c. Develop 2 participatory workshops on strategic planning for creating a shared vision of competitive development in each cluster.  d. Conduct 2 awareness/promotional campaigns to identify and attract potential participant enterprises.	MIF: US\$188,200  PROMPYME: US\$226,960	SGI reports  Semiannual reports Midterm and final evaluations  Annual work plans  Strategy council minutes Inspection visits  SEE SCHEDULE OF ACTIVITIES	The supply of consulting and business services remains sufficient.  Enterprises are able to copay.

Objectives	Indicators	Means of Verification	Assumptions
<ul style="list-style-type: none"> <li>e. Conduct baseline studies of enterprises to gather information on their business performance and need for business services.</li> <li>f. Compile survey data on the supply of nonfinancial business services and request proposals to design the curriculum for the training workshops.</li> <li>g. Facilitate the creation of business networks (through training and participatory planning workshops) and the preparation of business plans.</li> </ul>			
<p><b>Component 2:</b></p> <ul style="list-style-type: none"> <li>a. Support the selection and hiring of network managers.</li> <li>b. Review business plans agreed upon by the entrepreneurs in each network.</li> <li>c. Develop action plans for the networks.</li> <li>d. Recruit legal counsel to help formalize the operations of the networks.</li> <li>e. Facilitate technical assistance to optimize production and organizational technology in accordance with each network's action plan.</li> </ul>	<p>MIF: US\$577,200 PROMPYME: US\$8,000</p>		

Objectives	Indicators	Means of Verification	Assumptions
f. Draw up an evaluation form that entrepreneurs can use to indicate their level of satisfaction with the services provided.			
<b>Component 3:</b> a. Identify business opportunities for the networks participating in the project. b. Put project networks into contact with potential purchasers of their products and operators interested in their services. c. Support the design and implementation of a business strategy for each network (promotion, trade fairs, road shows, distribution of samples, etc.).	MIF: US\$114,000 PROMPYME: US\$50,000		
<b>Component 4:</b> a. Design, install, and maintain an information system for monitoring progress and performance indicators. b. Hire a consultant to conduct an annual participatory evaluation of fulfillment of each network's action plan. c. Hire a consultant to catalogue the partnerships promoted under the project. d. Prepare supporting materials (audiovisual materials, print publications and information available via the Internet).	MIF: US\$26,000 PROMPYME: US\$80,000		

Objectives	Indicators	Means of Verification	Assumptions
<div>e. Disseminate project outcomes and impacts.</div> <div>f. Organize an internship in each cluster for private-sector professionals or technical staff from other clusters in Peru.</div> <div>g. Design, organize, and conduct a competition for partnership business plans.</div>			

Budget: Development of Business Networks in the Garment-making (Gamarra) and Tourism (Cuzco) Clusters of Peru

	Unit	Unit cost	Qty.	Year 1	Unit cost	Qty.	Year 2	Unit cost	Qty.	Year 3	Contribution					%		
				Subtotal			Subtotal			Subtotal	TOTAL	MIF	Counterpart			TOT.	MIF	Counterpart
													In cash	In kind	Subtotal			
1. Development of cooperative business networks and cooperation with institutions				225,720			94,720			94,720	415,160	188,200	199,960	27,000	226,960	26%	12%	14%
Operating units																		
Cluster coordinators (2)	month/consultant	2,400	22	52,800	2,400	24	57,600	2,400	24	57,600	168,000	84,000	84,000		84,000			
Administrative assistants (2)	month/consultant	600	22	13,200	600	24	14,400	600	24	14,400	42,000		42,000		42,000			
Office rental (2)	month/rent	700	24	16,800	700	24	16,800	700	24	16,800	50,400		50,400		50,400			
Office furniture	package	3,000	2	6,000							6,000		3,000	3,000	6,000			
Equipment	package	7,000	2	14,000							14,000	10,000		4,000	4,000			
Work materials	month/package	50	22	1,100	50	24	1,200	50	24	1,200	3,500		3,500		3,500			
Communications	month/package	150	22	3,300	150	24	3,600	150	24	3,600	10,500		10,500		10,500			
Travel	fare	160	4	640	160	4	640	160	4	640	1,920		1,920		1,920			
Per diem	day	40	12	480	40	12	480	40	12	480	1,440		1,440		1,440			
Training in network facilitation and competitive models for business cooperation																		
International consultant, business networks	product	18,000	1	18,000							18,000	18,000						
Public announcement of vacancy for each cluster (2)	product	900	2	1,800							1,800	1,800						
Work materials	package/workshop	400	3	1,200							1,200		1,200		1,200			
Workshops on cluster strategic planning																		
Consultants, strategic planning (2)	product	1,200	2	2,400							2,400	2,400						
Facility rental	package	400	2	800							800		800		800			
Work materials	package	100	2	200							200		200		200			
Promotion and awareness-building											-							
Consultants to support the OU (4)	month/consultant	1,000	12	12,000							12,000	12,000						
Dissemination workshops, promotional materials, awareness seminars, business-to-business meetings, visits to model companies	package	10,000	2	20,000							20,000			20,000	20,000			
Diagnostic assessments of production and management technologies				-														
Consultants to support the OU (4)	month/consultant	1,500	8	12,000							12,000	12,000						
Survey of business services providers in each cluster				-														
Consultants to support the OU (4)	month/consultant	1,500	4	6,000							6,000	6,000						
Preparation of business plans				-														
Consultants to support the OU (4)	month/consultant	1,500	8	12,000							12,000	12,000						
Work materials	package/month	500	2	1,000							1,000		1,000		1,000			
Selection and holding of training courses and workshops				-														
Training workshops	package	15,000	2	30,000							30,000	30,000						

	Unit	Unit cost	Qty.	Year 1	Unit cost	Qty.	Year 2	Unit cost	Qty.	Year 3	Contribution					% Counterpart		
				Subtotal			Subtotal			Subtotal	TOTAL	MIF	Counterpart			TOT.	MIF	Counterpart
													In cash	In kind	Subtotal			
<b>2. Assistance with access to production technologies</b>				65,000			283,400			236,800	585,200	577,200	-	8,000	8,000	37%	37%	1%
<i>Hiring of network managers</i>	100% of compensation	1,900		-														
Network managers (20)	month/consultant	1,425	40	57,000	1,362	120	163,400	1,140	120	136,800	357,200	357,200						
<i>Advisory assistance to formalize network operations</i>																		
Legal advice to support formalization of network (2)	month/consultant	2,000	4	8,000							8,000			8,000	8,000			
<i>Technical assistance to optimize production and organizational technologies</i>				-														
Training and technical assistance	package/network			-	6,000	20	120,000	5,000	20	100,000	220,000	220,000						
<b>3. Facilitating market access</b>				50,000			34,000			80,000	164,000	114,000	10,000	40,000	50,000	10%	7%	3%
<i>Identification of business opportunities</i>							-											
Consulting services to identify business opportunities	product	50,000	1	50,000			-				50,000	50,000						
<i>Business liaison</i>				-							-	-						
Meetings with buyers and operators	product			-	5,000	2	10,000	5,000	2	10,000	20,000		10,000	10,000	20,000			
<i>Network business strategies</i>							-					-						
Promotion, trade fairs, road shows, distribution of samples, etc.	package/network				1,200	20	24,000	3,500	20	70,000	94,000	64,000		30,000	30,000			
<b>4. Monitoring and dissemination of project outcomes</b>				19,000			13,000			74,000	106,000	26,000	58,400	21,600	80,000	7%	2%	5%
<i>Information system for monitoring progress and performance indicators</i>																		
Consultant, system design	month/consultant	3,000	1	3,000							3,000		3,000		3,000			
Consultant, information system implementation	month/consultant	3,000	2	6,000							6,000		6,000		6,000			
System upgrades	month/consultant				3,000	1	3,000				3,000			3,000	3,000			
<i>Annual participatory evaluation of the impact of each network's action plan</i>				-			-											
Facilitator, evaluation workshop on impact of action plans (2)	workshop/network	500	20	10,000	500	20	10,000	500	20	10,000	30,000		30,000		30,000			
<i>Cataloguing of partnerships promoted under the project</i>				-			-											
Consultant to catalogue partnerships	product			-			-	7,000	1	7,000	7,000		7,000		7,000			
<i>Supporting materials</i>				-			-											
Audiovisual materials, print publications and information available via the Internet	package			-			-	16,000	1	16,000	16,000		6,400	9,600	16,000			

	Unit	Unit cost	Qty.	Year 1	Unit cost	Qty.	Year 2	Unit cost	Qty.	Year 3	Contribution					% Counterpart		
				Subtotal			Subtotal			Subtotal	TOTAL	MIF	Counterpart			TOT.	MIF	Counterpart
													In cash	In kind	Subtotal			
Cost of supporting internships				-			-											
Transportation, meetings	package			-			-	1,500	2	3,000	3,000		1,200	1,800	3,000			
Dissemination of outcomes				-			-											
Dissemination events (2)	package			-			-	6,000	2	12,000	12,000		4,800	7,200	12,000			
Business plan competition										-								
Design	product			-				2,000	1	2,000	2,000	2,000						
Development of competition	product							24,000	1	24,000	24,000	24,000						
<b>5. Project executing unit</b>				<b>63,600</b>			<b>57,600</b>			<b>57,600</b>	<b>178,800</b>	-	<b>172,800</b>	<b>6,000</b>	<b>178,800</b>	<b>11%</b>	<b>0%</b>	<b>11%</b>
Project director	month/consultant	3,400	12	40,800	3,400	12	40,800	3,400	12	40,800	122,400	-	122,400		122,400			
Assistant	month/consultant	1,400	12	16,800	1,400	12	16,800	1,400	12	16,800	50,400	-	50,400		50,400			
Equipment	package	5,000	1	5,000							5,000	-		5,000	5,000			
Office furniture	package	1,000	1	1,000							1,000	-		1,000	1,000			
<b>6. Administration and oversight</b>				<b>24,520</b>			<b>23,520</b>			<b>23,520</b>	<b>71,560</b>	-	<b>7,480</b>	<b>64,080</b>	<b>71,560</b>	<b>5%</b>	<b>0%</b>	<b>5%</b>
Institutional support from PROMPYME (20%)	month/consultant	680	12	8,160	680	12	8,160	680	12	8,160	24,480	-		24,480	24,480			
Attendance at "MIF networks and supply chains cluster" workshop	package	1,000	1	1,000							1,000	-	1,000		1,000			
Office rental	month/rent	400	12	4,800	400	12	4,800	400	12	4,800	14,400	-		14,400	14,400			
Communications	month/service	500	12	6,000	500	12	6,000	500	12	6,000	18,000	-		18,000	18,000			
Work materials	month/package	200	12	2,400	200	12	2,400	200	12	2,400	7,200	-		7,200	7,200			
Facilitator, evaluation workshop on impact of action plans (2)	fare	160	6	960	160	6	960	160	6	960	2,880	-	2,880		2,880			
Per diem	day	40	30	1,200	40	30	1,200	40	30	1,200	3,600	-	3,600		3,600			
<b>7. Evaluation and external audits</b>							<b>8,000</b>			<b>13,000</b>	<b>49,280</b>	<b>34,600</b>	<b>14,680</b>	-	<b>14,680</b>	<b>3%</b>	<b>2%</b>	<b>1%</b>
Midterm review and final evaluation	product				8,000	1	8,000	8,000	1	8,000	16,000	16,000						
External audits	product							5,000	1	5,000	5,000	5,000						
Contingencies											28,280	13,600	14,680		14,680			
<b>SUB-TOTAL</b>				<b>447,840</b>			<b>514,240</b>			<b>579,640</b>	<b>1,570,000</b>	<b>940,000</b>	<b>463,320</b>	<b>166,680</b>	<b>630,000</b>	<b>100%</b>	<b>60%</b>	<b>40%</b>
MIF cluster monitoring	product								1	-	30,000	30,000						
<b>TOTAL</b>				<b>447,840</b>			<b>514,240</b>			<b>579,640</b>	<b>1,600,000</b>	<b>970,000</b>	<b>463,320</b>	<b>166,680</b>	<b>630,000</b>			

**MIF PROJECTS IN PERUVIAN SMALL BUSINESSES**  
**DEVELOPMENT OF BUSINESS NETWORKS IN THE GARMENT-MAKING (GAMARRA) AND TOURISM (CUZCO) CLUSTERS OF PERU**  
**(TC-03-02-01-0)**

**A. Similar or related MIF projects**

None.

**B. Similar or related IDB projects**

Project number and approval date	Project title, sector, executing agency, and amount	Date of signature and disbursement period (in months)	Amount disbursed	Comments
PE-0239 11-27-03	PBL: Competitiveness reform program, Ministry of Finance, US\$3,000,000	N/A; 36 months	N/A	Recently approved.

**C. Related projects or beneficiaries in the same sector (2 projects)**

Project number and approval date	Project title, sector, executing agency, and amount	Date of signature and disbursement period (in months)	Amount disbursed	Comments
TC0204009	Expansion of cleaner production support, Centro de Eficiencia Tecnológica (CET), US\$750,000	N/A 42 months	N/A	To be submitted to the Donors Committee for consideration in 2004.
ATN/ME-6586-PE 7-21-99	Investment promotion for small and medium-sized enterprises, Foreign Trade Association of Peru (COMEXPERU), US\$842,400	August 1999 30 months	100%	Completed satisfactorily.
ATN/MH-7237-PE 11-29-00	Program to improve quality control in small and medium-sized enterprises, Instituto Nacional de Defensa de la Competencia y Protección de la Propiedad Intelectual (INDECOPI), US\$551,250	July 2001 42 months	29%	Satisfactory execution, but with some pari passu imbalance.
ATN/MH-7236-PE 11-29-00	Program to improve quality control in small and medium-sized enterprises, Centro de Desarrollo Industrial (CDI), US\$511,060	July 2001 42 months	34%	Slow execution, extension required.
ATN/MH-6377-PE 2-3-1999	Development of national skill standards and regional training programs for the tourism sector, Centro de Formación Turística (CENFOTUR), US\$1,087,000	April 1999 48 months	100%	Completed satisfactorily.